

QUARTERLY UPDATE

CWS CAPITAL PARTNERS LLC

CWS Capital Partners LLC

CWS

CALENDAR OF EVENTS

March 15, 2017
Year 2016 K-1's Mail by Date

April 14, 2017
Good Friday
CWS Offices Closed

April 17, 2017
2016 Federal & State Tax Filing Deadline
1st Quarter 2017 Est. Tax Payments Due

April 18, 2017
CWS Annual Partners Meeting
Newport Beach Marriott Hotel and Spa
Newport Beach, CA (Fashion Island)

April 28, 2017
1st Quarter 2017
Quarterly Packages Mailed

May 2017
CWS Capital Partners
Semi-Annual Conference Call

May 29, 2017
Memorial Day
CWS Offices Closed

June 15, 2017
2nd Quarter 2017
Est. Tax Payments Due

July 4, 2017
Independence Day
CWS Offices Closed

July 28, 2017
2nd Quarter 2017
Quarterly Packages Mailed



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CWS - MY FAMILY OFFICE



By Gary Carmell

2017 should be quite an interesting year. We have a new President for which there is very little historical parallel. Donald Trump has clearly shown he is his own man and the consummate negotiator so we don't really know where he truly stands on a lot of issues, or at least what he will settle for. As such, it is our job to play the cards that were dealt to us and not look too far ahead because there are too many unknowns. We will keep our head down and make sure we continue to do our best in terms of managing our investments, communicating with our investors, financing our properties, identifying new investment opportunities, and making prudent disposition decisions. This is how we have always operated the business no matter who the President is or who controls Congress.

I thought I would share a personal anecdote that I hope will have relevance for our investors. I went out to lunch

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with someone who wanted to discuss the potential for me joining a business group of people that meet certain criteria in terms of responsibility, firm size, and financial accomplishments. The goal is to offer a safe place for people with similar backgrounds and levels of success to discuss important business issues, financial strategies, investments, life goals, and estate planning, in a confidential environment. I have been a member of Young Presidents Organization (YPO) and now YPO Gold after having reached 50 so I have been involved with successful people in a similar type of setting for a number of years already. In addition, I have two of the best partners one could ask for in Steve Sherwood and Mike Engels with whom I am able to discuss any important issue knowing I will be listened to, heard, and respected. Given this, I was a hard sell in terms of convincing me that I would find value in joining the group knowing that I had some of the key bases covered between my YPO experience and my partnership with Steve and Mike.

With some of the bases covered he then brought up estate planning and I said that between YPO and some of our advisors and what Steve has done, I feel like I have access to some great people for that. He then brought up how the group and organization can help with my investments to which I honestly replied that I have very little interest or need to look for investments outside of CWS and some personal real estate that I own. I have been subscribing to the theory of putting all of your eggs in one basket and watching that basket very carefully. That may be a little too dramatic as my basket consists of over 80 individual properties, albeit in one asset class and a fairly heavy concentration in Texas. Nevertheless, Charlie Munger has said that risk comes from not knowing what you're doing and this can lead to permanent loss of capital. At least with CWS I have some semblance of knowing what I'm doing, I can keep a pulse on what is going on, and know that there is a terrific organization managing the properties and investments.

This brings me to the big insight that occurred for me during the lunch. He had one more arrow in his quiver to help convince me that there may be a key missing in my life. He mentioned that because of the success of some of the members a number of them have formed their own family offices or were considering doing so and surely that might be of interest to me. My first reaction was that I was flattered he thought I was so well off but rather than coming clean, I just decided to play along and act like he was definitely talking to the right person. And it was right at that moment that I realized he was talking to the wrong person because I realized right then and there that CWS was

my family office. I excitedly and a bit aggressively declared that to him with my chest thrusting outward with great pride, a fire in my belly, and intensity in my eyes.

CWS was my family office! What a powerful insight for me. We are joined at the hip. The bulk of my net worth is invested in CWS properties and the firm and, while CWS doesn't do everything that a traditional family office does, it sure handles most of what I need when it comes to my investments. I am very lucky to have been part of a very deep and competent organization for nearly 30 years and ending up with the bulk of my net worth invested in the assets managed by the firm and aligned with our nearly 1,000 investors. I personally cannot move the financial needle meaningfully unless our investors do well.

One of the hallmarks of effective and well-run family offices is that they are designed to meet the needs of the family. It is important to articulate what one's goals and objectives are. For me I have come to realize that I am not a very effective investor when it comes to assessing opportunities outside of apartments, especially when it comes to highly liquid investments like stocks. The easy access to real-time pricing and the minimal trading costs make it far too easy to pull the trigger at the most inopportune times. I have done well with an index fund that I invested in many years ago and only look at how it's doing once or twice a year. And that is why I have done well with it. I have left it alone.

The bottom line is that there are so many options in the stock market and the information access and low costs make it too distracting and tempting for me to over-trade and make poor decisions. As a result, I appreciate the illiquidity of CWS' investments because it has taken a lot of the decision-making out of my hands and I know I am a partial owner of something very tangible, which are real operating businesses that serve a basic need that will always be the case provided the locations remain desirable and communities well maintained.

One of the great attributes of owning real estate for the long term is the dividend potential. The dividends produced by the investments are highly valuable as they can help enhance the quality of one's life by providing more income as well as over time can produce more capital to be reinvested. There are many studies that have shown that companies that have growth and can pay dividends sustainably over time generate better returns than those that do not pay dividends. This is generally the case because

most management teams are not very good at allocating capital and it is not uncommon for executives to want to hoard capital and overinvest in the business to create a bigger empire to give them more power, job security, and higher compensation. This often comes at the expense of the shareholders, however, via sub-optimal returns. The best businesses are ones that can continue to grow and still have excess cash to pay out to shareholders in the form of dividends. This has been the case for many of CWS' apartment investments over the years.

While not everyone likes to use borrowed money when making investments, I am comfortable with the fact that CWS utilizes leverage to finance the purchase and development of its properties. Properly employed leverage magnifies the returns to investors and can be tax efficient since interest payments are currently deductible. It also allows investors to participate in the purchase of more real estate that can be depreciated and serves to shelter most, if not all of the distributions, particularly early in the ownership period. Because of CWS' size, track record, and lender relationships, it can access far better debt terms than I could as an individual. Plus, as an individual, my capital is limited so I do not have the wherewithal to buy the quality and size of properties that CWS can.

I mentioned that utilizing leverage can create more depreciation potential. This speaks to another great benefit of investing with CWS: Tax efficiency. CWS' investments tend to offer highly sheltered cash flow, refinance distributions not being taxable under most circumstances, and the ability to defer one's gains via 1031 exchanges. It also has very compelling estate planning benefits since under current law one's heirs get a step up in basis. Thus, during my lifetime I can benefit from the tax advantages of owning real estate investments and not pass the deferred gain and low basis to my heirs. Of course this may not be the case if the tax laws change, but this is the situation currently. And because the investments are minority ownership positions in illiquid real estate partnerships, one can often apply a discount to the valuation for estate tax purposes.

Overall, the financial characteristics of the investments offered by CWS are quite compelling for my personal needs, risk tolerance, financial goals, and temperament. They not only help me avoid my weaknesses as an investor, but they also offer compelling characteristics that can help me achieve my financial goals, enhances my lifestyle, and can provide a financial legacy for my kids in ways that can improve their lives but not take away the option of working since the investments are illiquid but do offer dividends.

With the financial potential and characteristics meeting my needs, then reporting and access to key people in the firm becomes very important to understand how my investments are performing. We take great pride in the quality, timeliness, relevance, and accuracy of our reporting and many investors have given us high marks for this. These include:

- Quarterly reports for our properties and funds
- Quarterly Update with a lead article and pertinent updates
- Semi-annual investor conference calls
- Annual Investor Report
- Personal Annual Investor Report (PAIR which values every property and fund and makes an estimate of cash flow and taxable income for the calendar year)
- Special updates usually tied to a refinance or sale but others as well when we deem it important to more fully inform our investors about something pertinent
- Annual Investor Meeting
- Detailed personal financial recaps when making a decision related to a property selling in terms of participating in a 1031 exchange or cashing out
- K-1s - Almost all of which are delivered by March 1
- Investor Portal which can allow investors to access all pertinent information online
- Informative and comprehensive summaries of prospective investment opportunities

Well-run family offices also have excellent teams and professional advisors. We have attorneys we have worked with for over 30 years as well as our internal accounting team and outside firm to handle all of our financial statements, tax returns, and K-1s. CWS has invested in the following capabilities that make me feel very confident along with knowing it is a very deep organization that is fully integrated when it comes to identifying and managing my investments. These capabilities are as follows:

- Accounting
- Tax Management
- Investor Reporting
- Investor Services
- Capital Management
- Compliance
- Risk Management

- Human Resources
- Talent Acquisition
- Operational Compliance
- Information Technology
 - Help Desk for our employees
 - Network Management
 - Property Management Software Expertise
 - Information Analysts
 - Proprietary Investor Information System
- Property Management
- Revenue Management
- Debt Management
- Capital Projects and Renovations
- Marketing
- Training
- Development
- Acquisitions and Dispositions
- Closing Team
- Due Diligence
- Asset Management
- Experienced Executive Team
- BRIDGE - Community Service Program
- Corporate Housing sister company

This is a pretty impressive list of capabilities and not easily replicated given the experience, loyalty, competence, culture, and significant investments that have been made to get us to this point. I have said to people if I suddenly came into \$100 million the first thing I would do would be to go to CWS and develop a strategy to invest the bulk of those funds wisely. I would do this because I have great trust in the people and their integrity; they truly care about our investors. It is also a highly competent and deeply talented organization with enormous capabilities in an industry that I know and understand and feel very good about the long term fundamentals. I would know my capital would be in very good hands and that my family would be well taken care of. No matter who is President or what economic environment we're in, I feel very good knowing my capital is invested with such a talented firm. So yes I am proud to say that CWS is my family office.